

Importance of Regulatory Framework in Services Sector Development

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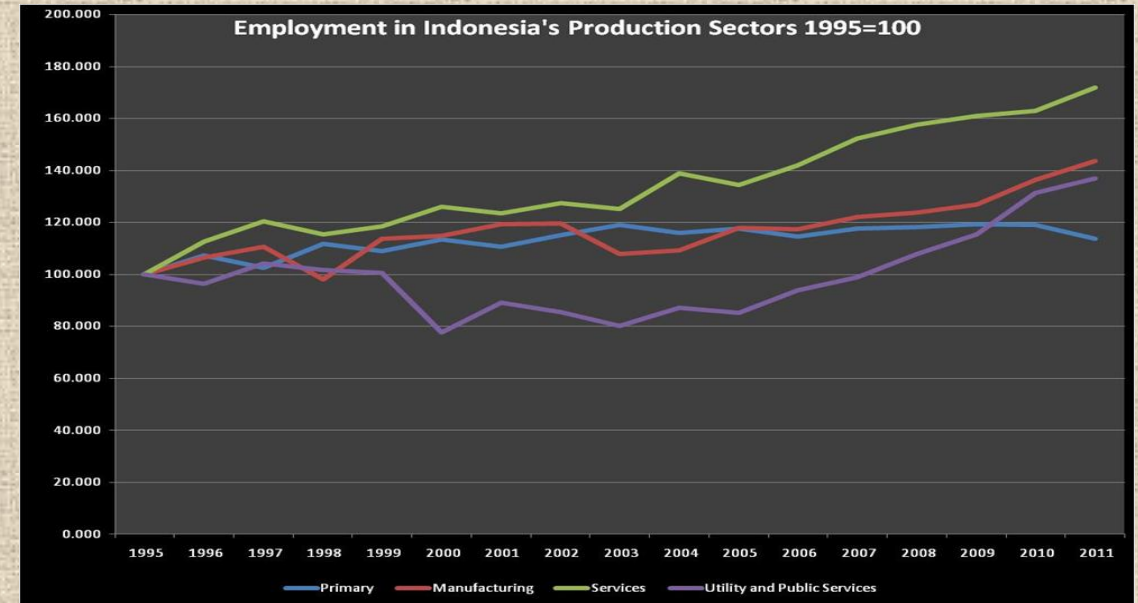
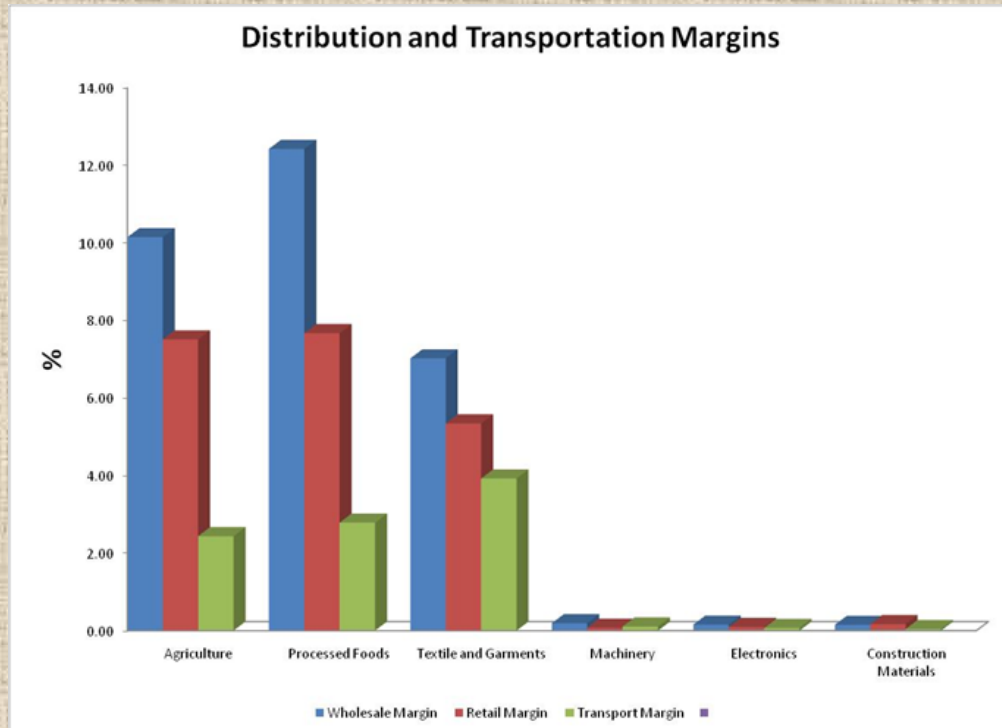
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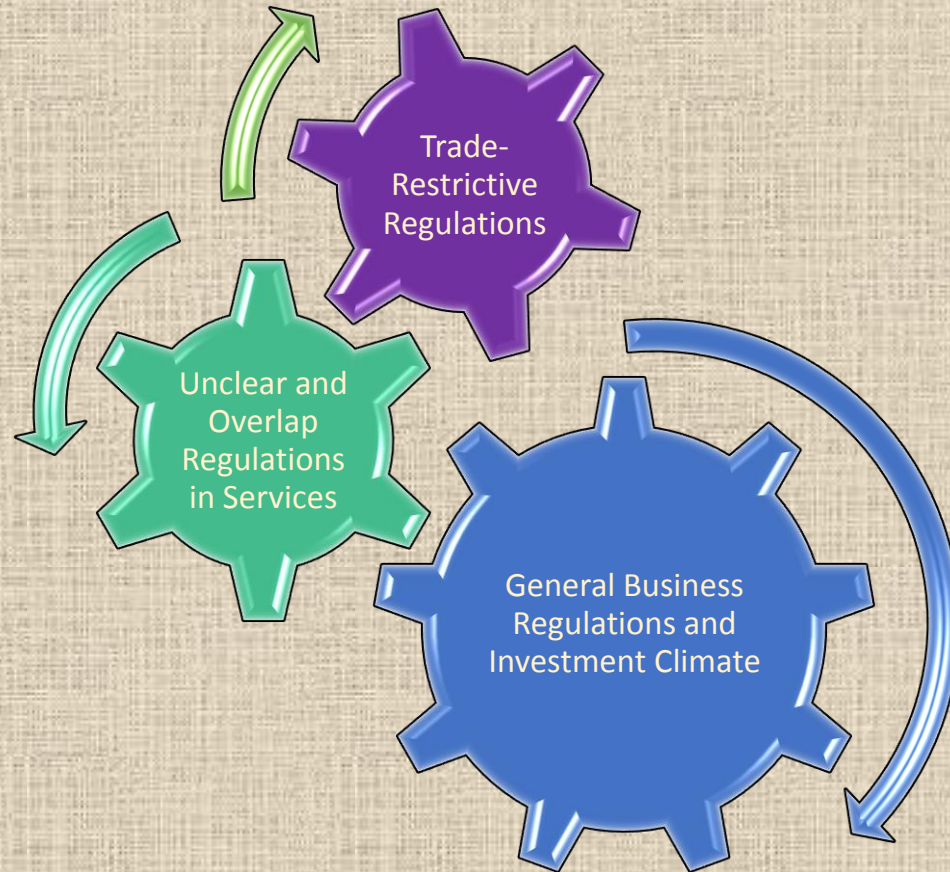
Importance of services sector

- Four important roles of services
 - Value added to the economy; the highest exceeding manufacture
 - Foreign currency revenue from exports
 - Employment; absorb more labor than agriculture
 - As inputs to other sectors and activities



- The last role are often neglected
 - Act as “glue” to economic activities
 - Making economic activities being conducted effectively
 - Required in the post-production activities
- Distribution and transportation takes very significant part of production in other sectors
 - Inefficient transportation and distribution are costly to economy

Regulatory problems in services



- Services sector development depends on strong regulatory framework
 - The problem is not it has little attention from policy makers, but tends to be too heavily regulated
- Business regulations and investment climate
 - Increase costs to set-up business and raise operation cost
- Unclear services regulations
 - Often not targeting real problems, and overlap with other regulations, lead to other problems
 - Has been there so long, nobody understand the objectives, but remains to be there
- Regulations that restricts trade
 - Protecting existing providers, not necessarily domestic, in the cost of users
 - Reduce the ability to absorb FDI

World Bank's Ease of Doing Business Rank

	China		India		Indonesia		Malaysia		Philippines		Thailand		Vietnam	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Ease of Doing Business Rank	99	96	131	134	116	120	8	6	133	108	18	18	98	99
Starting a Business	153	158	177	179	171	175	19	16	166	170	86	91	107	109
Dealing with Construction Permits	185	185	183	182	77	88	99	43	95	99	13	14	29	29
Getting Electricity	116	119	110	111	121	121	28	21	33	33	12	12	155	156
Registering Property	47	48	91	92	97	101	33	35	119	121	26	29	48	51
Getting Credit	82	73	24	28	82	86	1	1	126	86	71	73	40	42
Protecting Investors	95	98	32	34	51	52	4	4	127	128	12	12	169	157
Paying Taxes	122	120	159	158	132	137	15	36	144	131	97	70	145	149
Trading Across Borders	74	74	129	132	52	54	5	5	41	42	25	24	66	65
Enforcing Contracts	19	19	186	186	146	147	29	30	112	114	22	22	46	46
Resolving Insolvency	80	78	119	121	142	144	42	42	164	100	58	58	150	149

Some examples of regulatory burden

- There are 12 procedures to get business license and it can cost up to US\$ 1.100
 - In some sectors the requirement involve hundred types of forms: 170 license types to start shoe manufacture
 - In average it takes 380 days from registration to start manufacturing business
 - It links with retributions and taxes of the local government
- Cost of transporting goods from one region to another is high because of local regulations and retributions
- The problems stream from three inconsistencies
 - Between policy planning and regulations
 - Between regulations from different agencies
 - Between regulations from central and local governments

Some initiatives and challenges

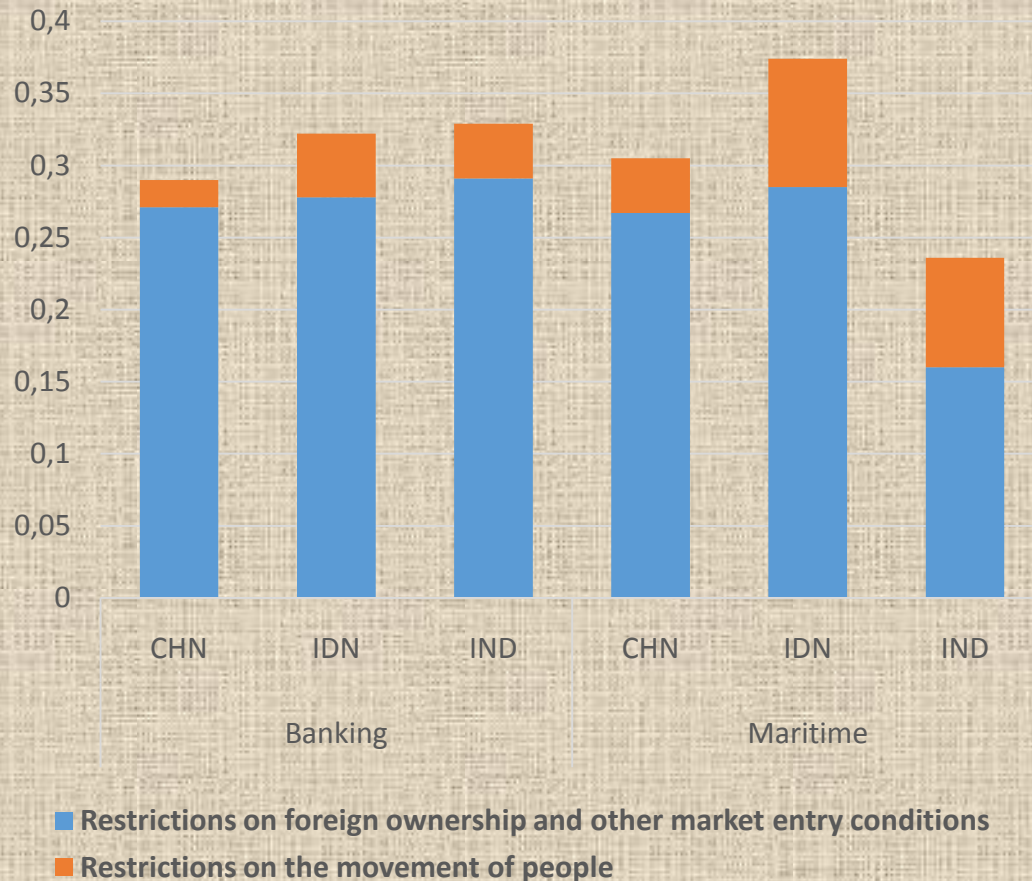
- Forward looking plans in formation of laws and sub-national regulations
 - But only for laws, not implementing regulations
- Compulsory regulatory impact assessment
 - But only for laws, not implementing regulations
 - Often done just for formality
- The national government started review program to evaluate “problematic” local regulations, but mostly focus on local taxes and charges
 - During the period of 2010-2015, the ministries are expected to review around 20,000 local regulations. Until 2013, there have been more than 1160 regulations that have been annulled or amended
- No coordinated initiative to review existing regulations
 - There are some attempts in investment coordination board and also in planning agency
- Need to be done at high level, i.e. a team under vice president
 - Also need to be clear in measurement, e.g. using Ease of Doing Business Rank as an indicator

Regulatory framework in services

Problems with regulations in services

- Unclear objectives
 - Market failures, e.g. concentration of market power, have been cited as sources, but the regulations do not address these issues
 - Non-economic objectives are often mentioned, e.g. social issues or national interests, but there is no explanation on how the regulations serve those objectives
- Overlapping and often contradictory regulations
 - Lead to unclear responsibility of various government agencies
 - Often due to the custom that Laws only deal with general term, and leave specific matters on lower level implementing regulations
- No review mechanism on existing regulations
 - Many regulations are no longer relevant since the surrounding mechanisms have changed
 - But still adds additional burdens
- There need to be inventory taking on existing regulations related to services
 - Applying regulatory guillotine procedures
 - Introducing “sunset clause” and IRA
- In formulating regulations some aspects need to be put into perspective
 - What is the underlying issues?
 - What can regulations offer?
 - Is there alternative and less distortive solution to the issue?
- Transparency and participation of wider stakeholders, including independent regulatory bodies

Services trade regulations



- Trade in services can be seen as a way to provide high-quality services
- Like the story of gains from trade in goods, countries willing to have access to services do not necessarily produce the activities locally
 - Services link, e.g. transportation can be supplied through cross-border provision, so do some telecommunication services
 - Greater market access for business services providers brings higher benefits also to local service providers
- To many restrictions harm the interests of users and make economic activities costly
 - Protection results to less competition, leading to inefficient and low performance

How ISD can contribute?

- ISD can initiate discussions on regulatory framework of services
 - The discussions can provide better understanding on the interests of providers, users and other stakeholders, while looking at the impact of the regulations
- ISD can conduct studies on the impact of regulations on services
 - Mapping related regulations; identifying old, irrelevant regulations
 - Come up with feasible recommendation in streamlining services regulations
- ISD should push for major initiative in streamlining regulations
 - Simple efforts can lead to major changes
 - But requires political will and coordinated efforts at high level